



# Hong Kong: Asia's Premier Asset Management Centre Opportunities for the Treasury Market



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# "Twin engines" to propel Hong Kong to new heights as international financial centre



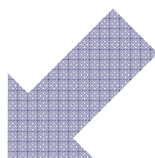
## Asia-Pacific Region

**Fast economic growth and wealth creation**

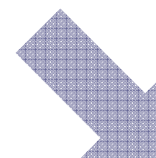
**+**

**Financial market liberalization in China**

**Propelling HK's development as**



**Offshore RMB centre**



**Premier Asset  
Management centre**



# Hong Kong: Asia's Premier Asset Management Centre

## Opportunities for the Treasury Market

1. Hong Kong's asset management industry: where do we stand?
2. How far can we go?
  - ❖ Favourable macro trends
  - ❖ Hong Kong's competitive edge
3. Opportunities for treasury market participants
4. Joint efforts by public and private sectors to promote Hong Kong as Asia's premier asset management centre



# Hong Kong: Asia's Premier Asset Management Centre Opportunities for the Treasury Market

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2. How far can we go?
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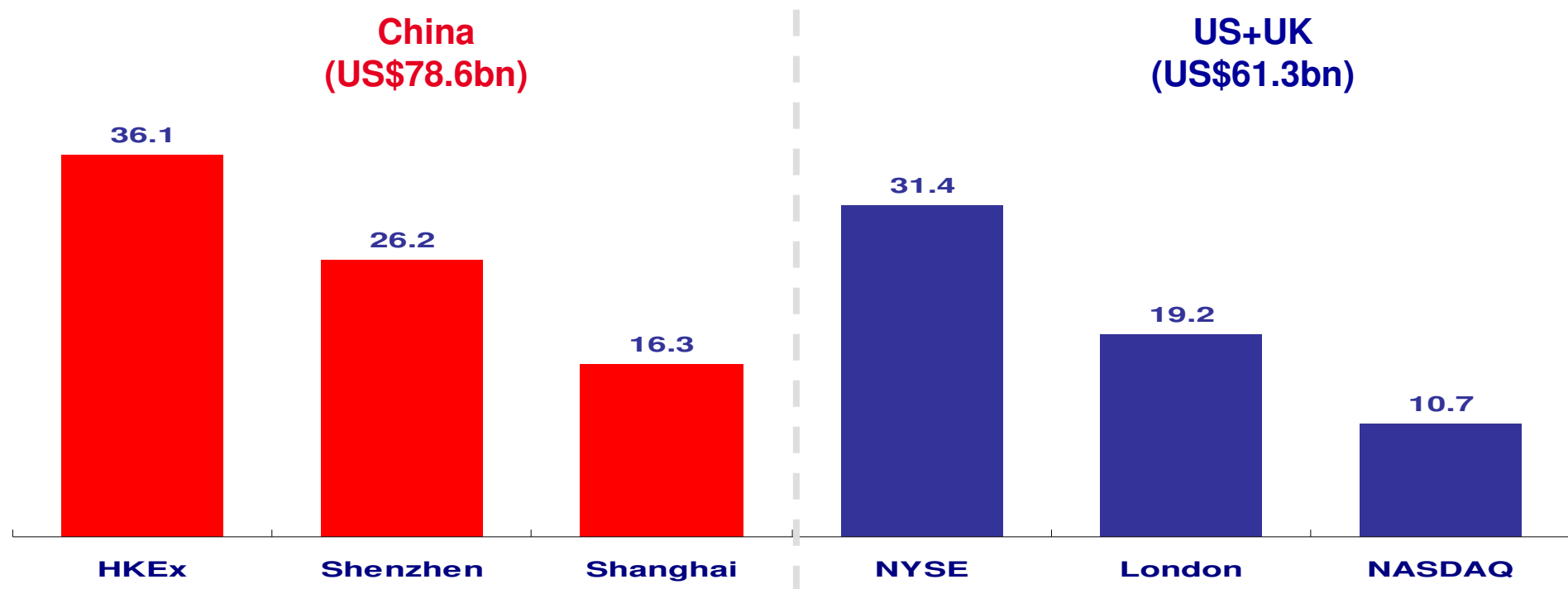


- World leader in equity Initial Public Offering (IPO)
- Leading hub for hedge funds investing in Asia
- Second largest hub for Private Equity funds in Asia
- Asia's private banking hub
- Premier offshore RMB business centre
- Largest hub for QFII and QDII managers

# Hong Kong and Mainland dominated global IPOs



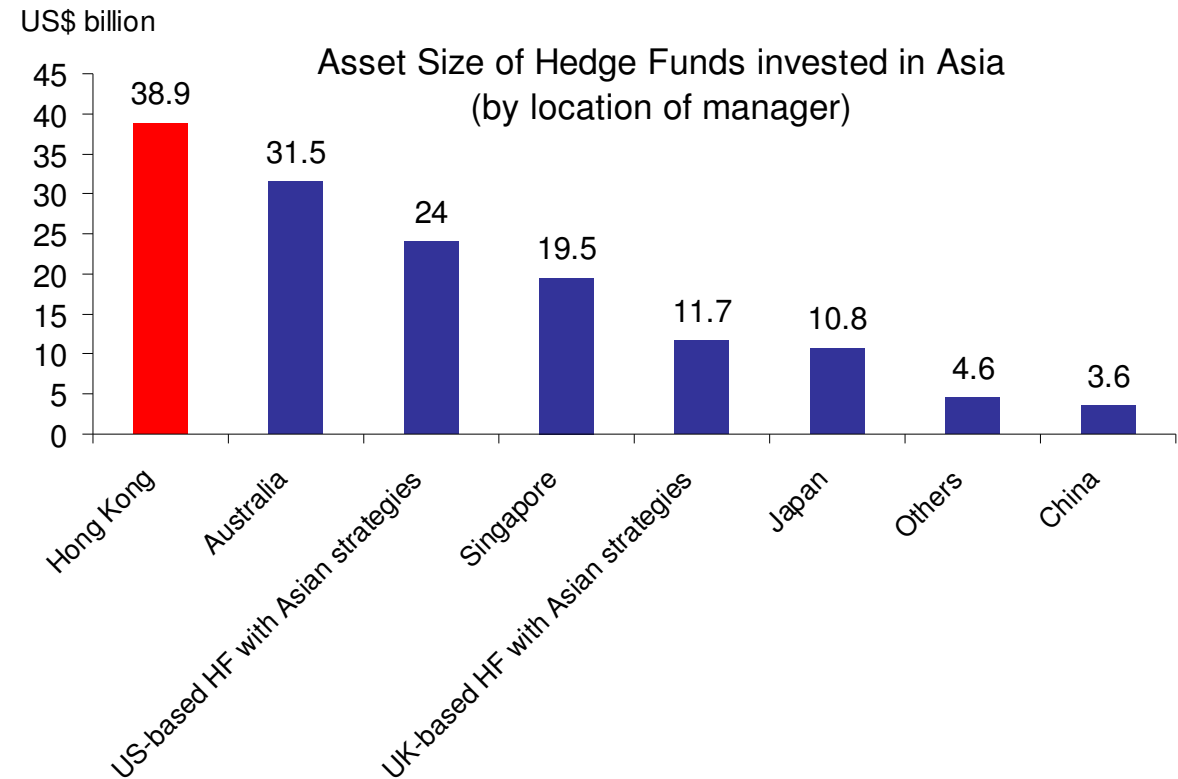
## IPO funds raised in 2011





## Leading hub for hedge funds investing in Asia

- ❖ Hong Kong currently hosts the largest pool of hedge fund assets that are invested in Asia.
- ❖ No.1 in terms of number of start-up hedge funds launched in Asia in 2011.





## Second largest hub for private equity funds in Asia

- Hong Kong ranked second in Asia with US\$63 billion CuM in 2010, accounting for 21.6% of the Asia's total, only slightly behind Mainland China's 22.6% and ahead of Japan's 14.2%.
- Mainland China and Hong Kong together manage nearly half of the private equity funds in Asia.
- Ongoing financial liberalization by Mainland authorities will attract more overseas PE capital into the Mainland, ...
- ... and Mainland enterprises will also use Hong Kong PE managers to seek more PE opportunities overseas.
- The strong IPO market also provides favourable exit options for PE funds.





Growing HNWI population in Mainland China and Hong Kong

Hong Kong as preferred choice for Mainland Chinese HNWIs, given their home bias nature.

Superior private banking platform and sound investor protection framework

- Political and economic stability makes Hong Kong the ideal private banking centre for clients.
- Hong Kong's stable and flexible financial platform can offer private clients a full array of capital market products.



## Premier offshore RMB business centre

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- ❖ Largest pool of offshore RMB liquidity
- ❖ Largest offshore RMB bond market (dim sum bond market)
- ❖ Global hub for RMB trade settlement
- ❖ Vibrant CNH market of increasing depth
- ❖ Unique RMB clearing and settlement system with a global footprint



# Largest hub for QFII and QDII managers

## **QFII**

- ❖ China has granted QFII qualifications to more than 150 foreign institutional investors.
- ❖ More than 100 of them have offices in Hong Kong already.

## **R-QFII**

- ❖ Since Dec 2011, China has granted R-QFII qualifications to 21 managers located in Hong Kong.

## **QDII**

- ❖ More than 30 mainland fund managers have been awarded with QDII qualifications.
- ❖ More than 15 of them have set up offices in Hong Kong since 2009.



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## Still far behind London and New York

	<i><b>U.K.</b></i>	<i><b>U.S.</b></i>	<i><b>Hong Kong</b></i>	<i><b>Singapore</b></i>
<b>Asset under management (US\$ trillion) 2010</b>	7.4	26.2	1.3	1.1
Domestically sourced (US\$ billion) 2010	4,900		442	220
<b>Mutual funds AuM 2010 (US\$ billion)</b>	935	10,867	71	28
<b>ETF AuM 2010 (US\$ billion)</b>	67	891	26	4
<b>Hedge funds AuM (US\$ billion)*</b>	343 (London)	799 (New York)	63	53
<b>PE/VC funds Capital Under Management (2010) (US\$ billion)</b>	173	400	63	10
<b>employment by PE/VCs</b>	7,000 (London)	11,500 (New York)	1,100	

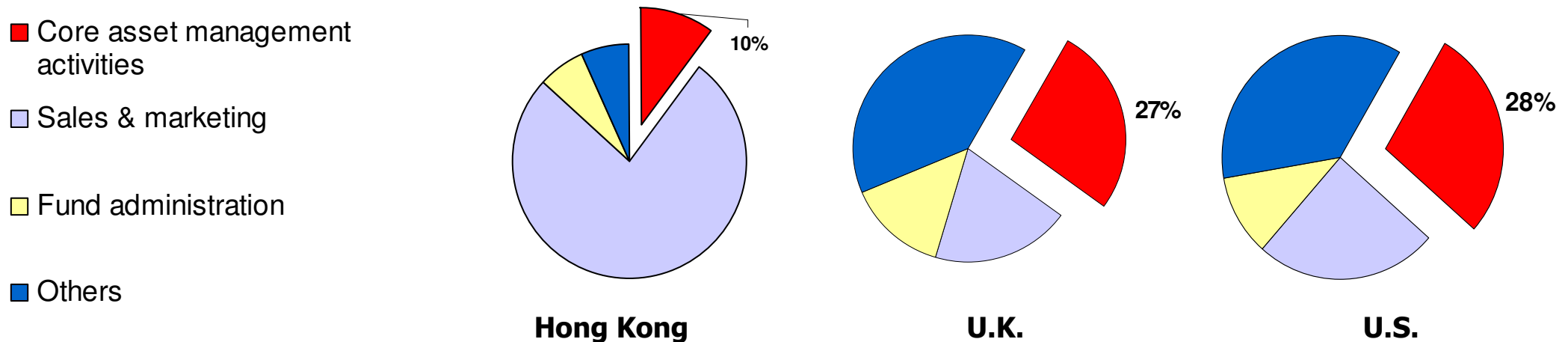
Note: Hedge Fund AUM: Hong Kong and Singapore are 2010 figures; UK and US are 2011 figures

Source: Black Rock, BVCA, Cerulli Associates, MAS, SFC, The City of New York, TheCityUK

# Hong Kong's asset management industry needs to increase diversity and value-add



## Job functions in asset management industry (% of industry employment)



Core asset management activities include fund management, research and trading/dealing.

*Note: Figures of HK are employment in fund management business. Figures of the U.K. are based on staffs directly-employed by the asset management industry, and exclude employment from outsourced services. Figures of the U.S. are based on staffs employed by the mutual fund industry (i.e. mutual funds, closed-end funds, ETFs, unit investment trusts and their service providers).*



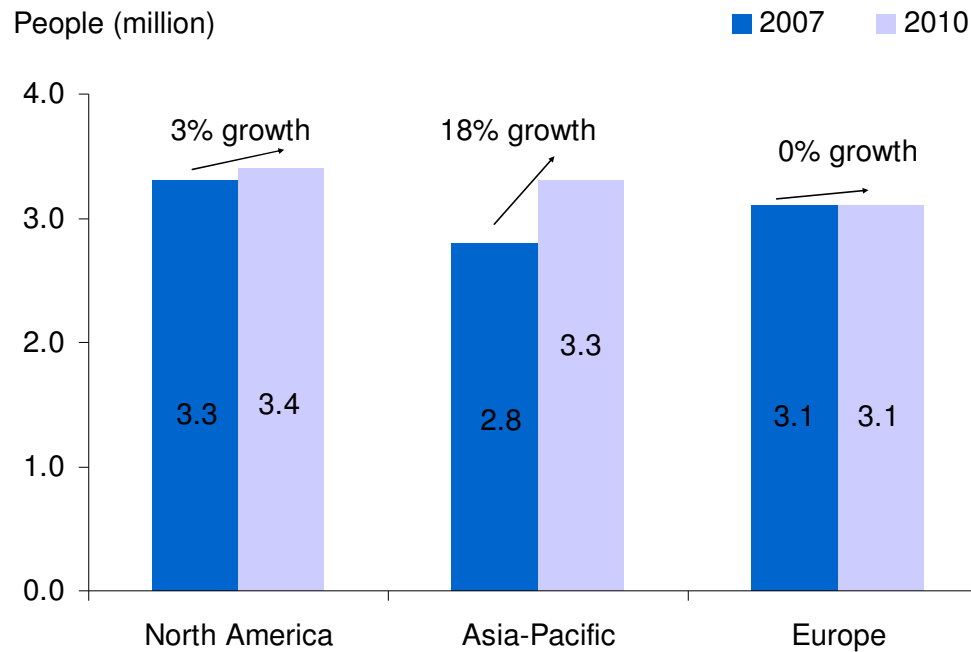
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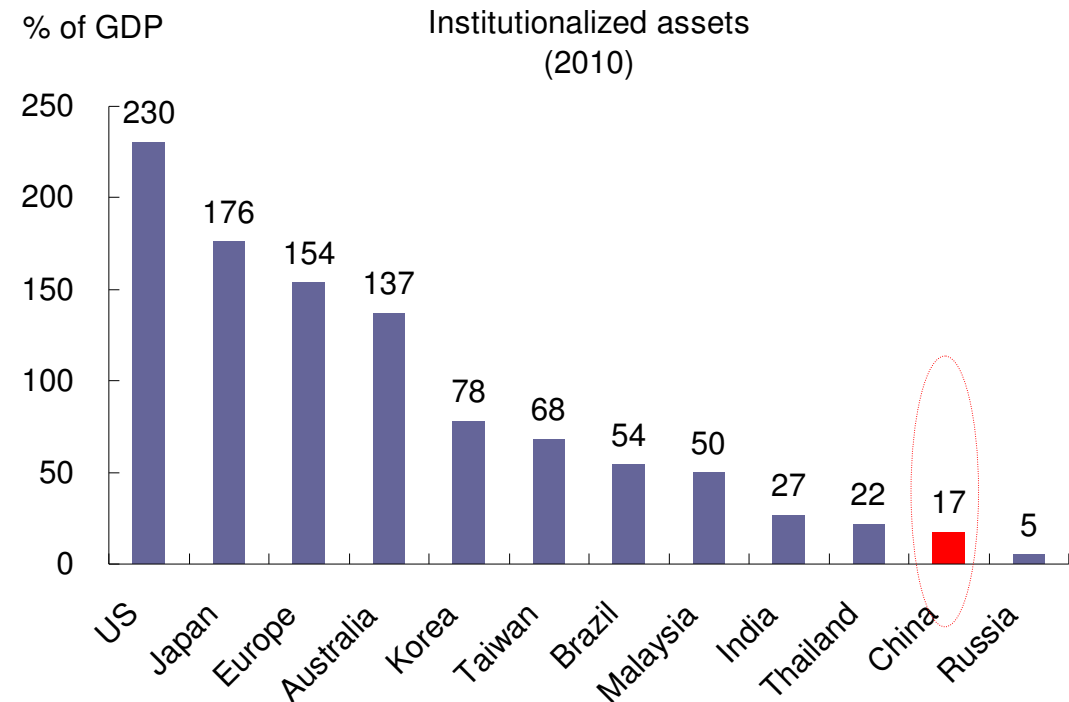


# Pool of high net worth individuals (HNWI) in Asia growing

## Number of HNWI by region



## Growing need for quality asset management services



Note 1: "Institutional asset" is defined to include pension funds, insurance assets and mutual funds

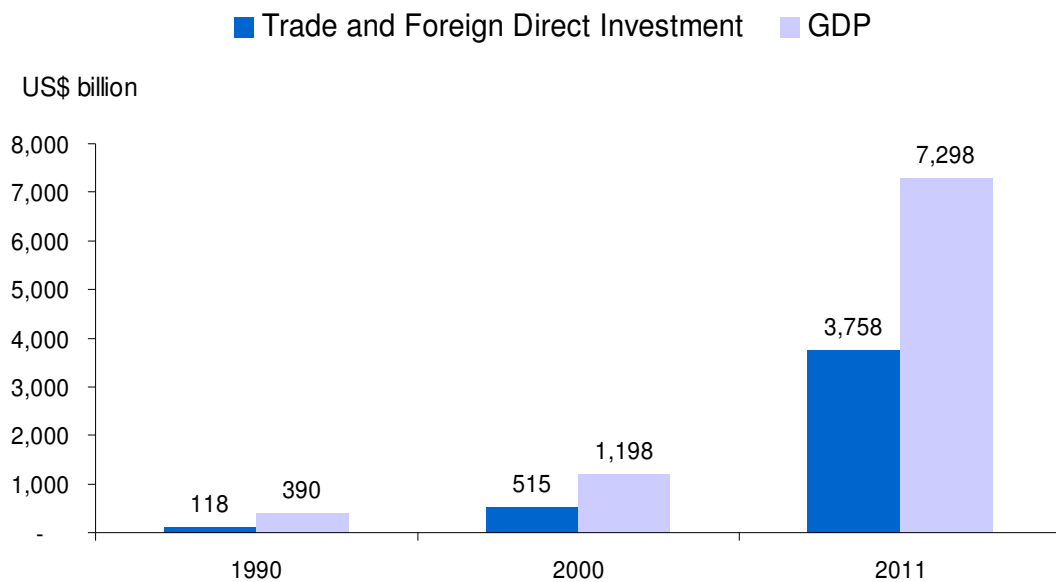
Note 2: HNWI are defined as those having investable assets of US\$1 million or more, excluding primary residence, collectibles, consumables, and consumer durables



# Hong Kong benefits from China's phenomenal growth and home bias of Mainland investors

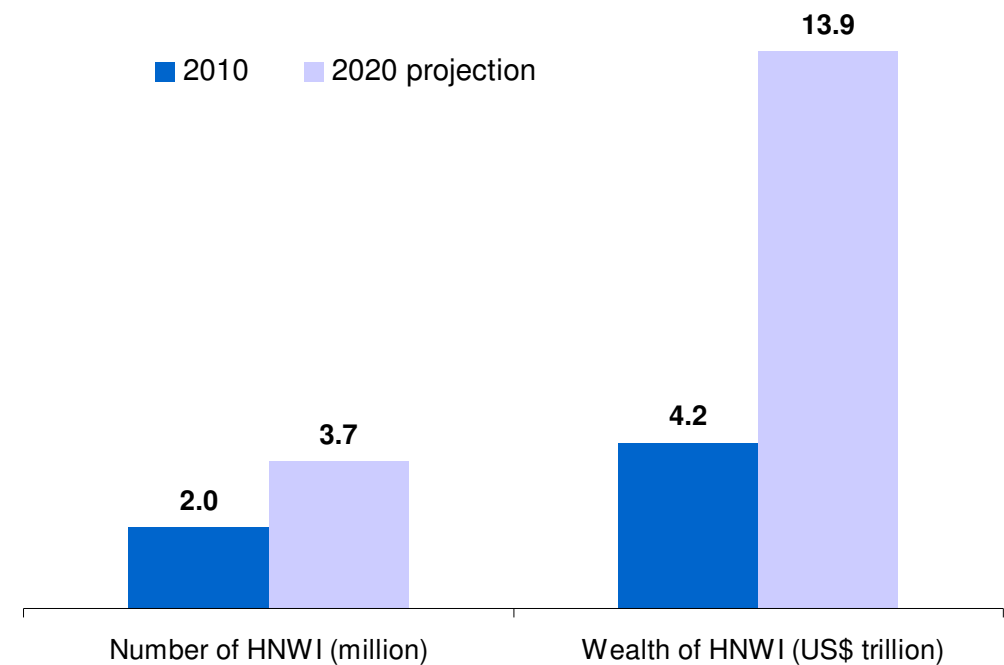


## Growth in Trade and FDI



Source: IMF, HKMA

## Growth in HNWI population and wealth (Mainland China and Hong Kong)

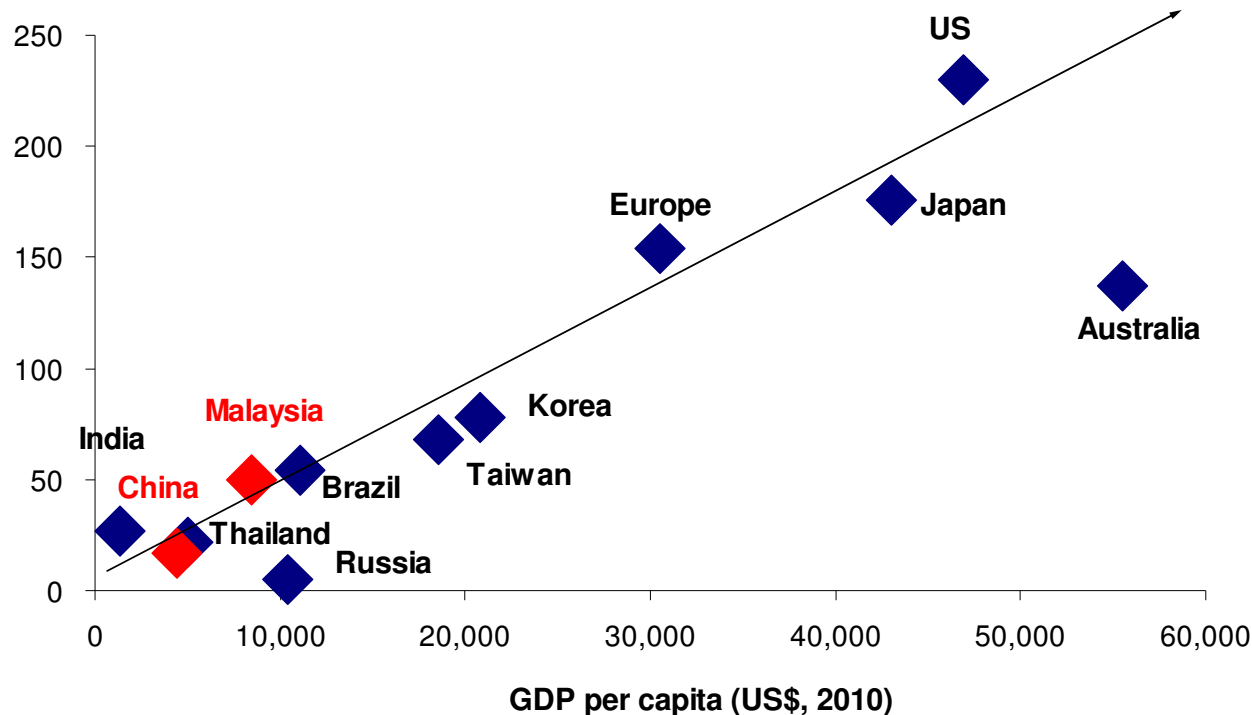


Source: Deloitte and Oxford Economics 17

# Demand for quality financial advice rises along with higher income



**Institutionalized funds  
(% of GDP, 2010)**



Note: "Institutional asset" is defined to include pension funds, insurance assets and mutual funds

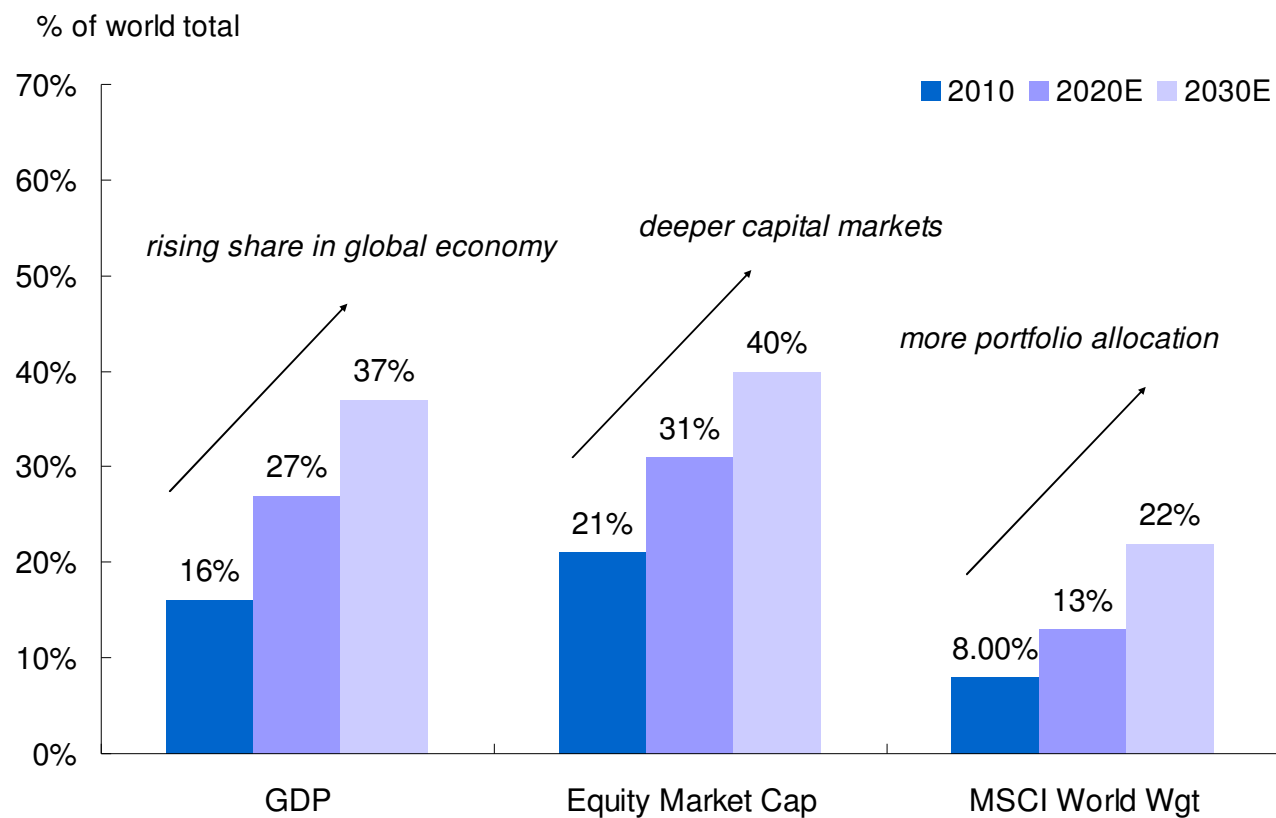
- In 2011, China's GDP per capita reached **US\$5,400**
- The amount of **institutionalized assets is less than 20% of GDP** (as of 2010)
- The IMF predicts **China's GDP per capita will reach US\$9,153 by 2017**.
- This is nearing to **Malaysia's** GDP per capita in 2011 (US\$9,700), where the institutionalized assets as share of GDP is around 50%.
- According to Cerulli Associates, Mainland China's mutual fund industry's AUM will reach US\$716 billion by 2015, from just over US\$400 billion in 2011.

# Emerging Asia to attract more global capital, as economy size grows



The rise of emerging markets, especially Asia, is changing asset allocations globally.

## Asia-ex-Japan's market share of the world





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# Hong Kong's fundamental strengths

## Unique advantage

Mainland China as a hinterland

## Fundamental strengths

Rule of law  
Openness  
Simple tax system  
Robust regulatory regime  
Deep talent pool  
Advanced financial infrastructure

## First mover advantage

Developing Renminbi business since 2004

# HK stands at the doorway of capital flows between China and the rest of the world

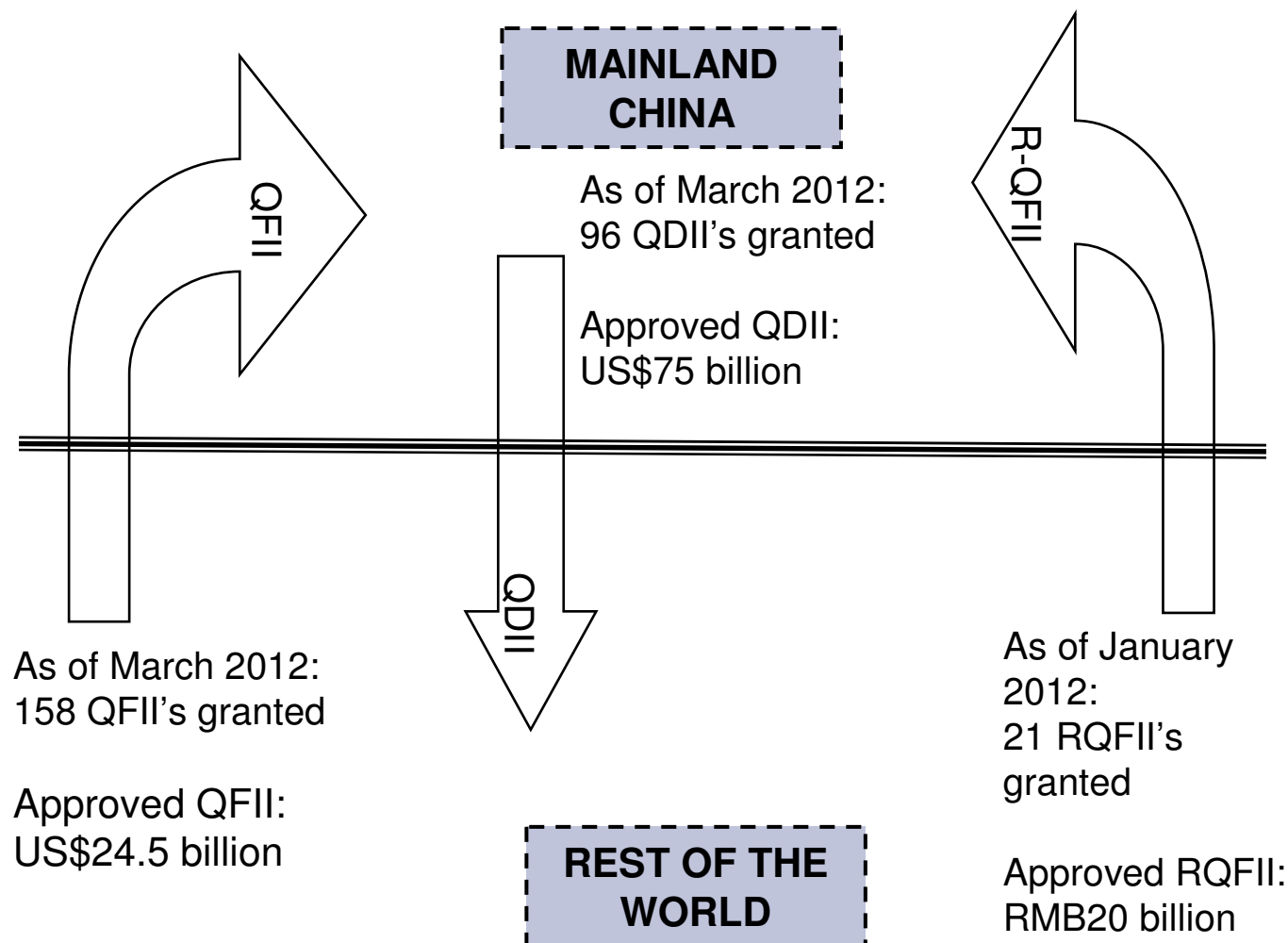


- Three main bridges to drive capital flows with the rest of the world:

1. **Trade,**
2. **Direct Investments**
3. **Portfolio Investments**

- On **portfolio investments:**

- QFII
- RMB-QFII
- QDII





# Three bridges forming a virtuous circle of RMB flows

## Expanded Trade Settlement Scheme

**RMB trade  
settlement centre**

Investment  
opportunities  
encourage RMB trade  
settlement

Net RMB trade  
inflows enlarge RMB  
liquidity pool

**RMB wealth  
management  
centre**

**RMB financing  
centre**

**RQFII & Mainland interbank bond market**

Diversification of  
RMB financial  
products

**FDI**



- ***Next phase*** is to build critical mass for HK's RMB capital market.
- The development path is **multi-dimensional** –

## Key players

Fund raisers, investors, intermediaries

## Capital markets

Bond market, bank loans, equity market, wealth management products

## Locality

Activities within HK and its interface with the rest of the world





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# Asset management industry and treasury markets are *intertwined*



## Asset Managers

- ❖ Seek value assets from the market to grow their asset base

## Treasurers

- ❖ Manage the asset-liability balance, risk-hedging functions and cash flows for their companies

**Common need: deep and efficient capital market in HK**

The diagram illustrates the relationship between three key players in the capital market. At the top, two boxes labeled 'Asset Managers' and 'Treasurers' are positioned side-by-side. Below them, a box labeled 'Intermediaries' is centered. A horizontal curly brace connects the two top boxes, indicating a common need. The text 'Common need: deep and efficient capital market in HK' is written in red above the brace. The text 'Role: To bring the demand and the supply sides together' is written in red below the 'Intermediaries' box.

## Intermediaries

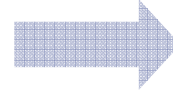
**Role: To bring the demand and the supply sides together**

# Being the premier asset management centre in Asia brings tremendous benefits to the treasury industry

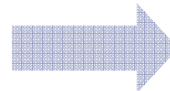


## Premier Asset Management Centre

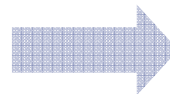
- ↑ Portfolio investment inflows
- ↑ Size and liquidity of capital markets
- ↑ Investment products



- ↑ Financial products and hedging instruments



- ↑ Financial intermediaries activities



## Treasury Market Operations

- Asset-liability management
- Investment/trading
- Funding/cash management

### Risk management

Interest rate

liquidity

Forex

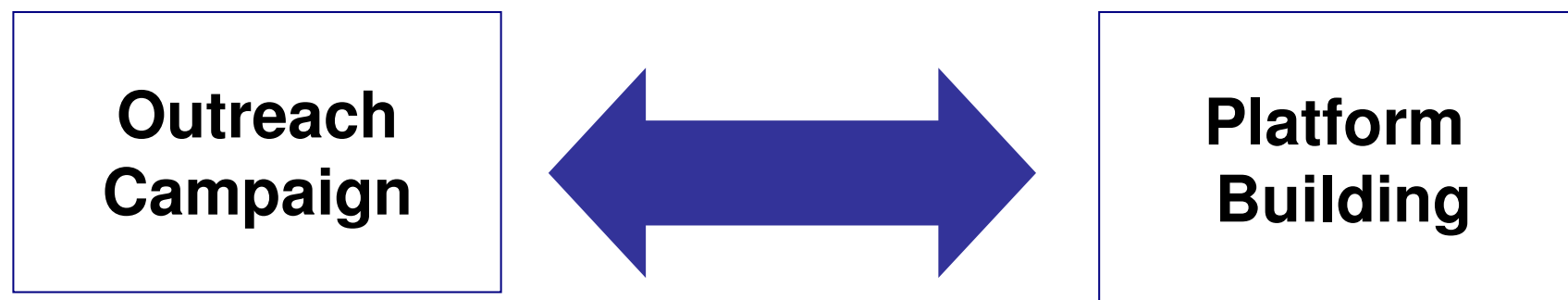
Support clients' treasury operations



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## “Two-pronged” strategy



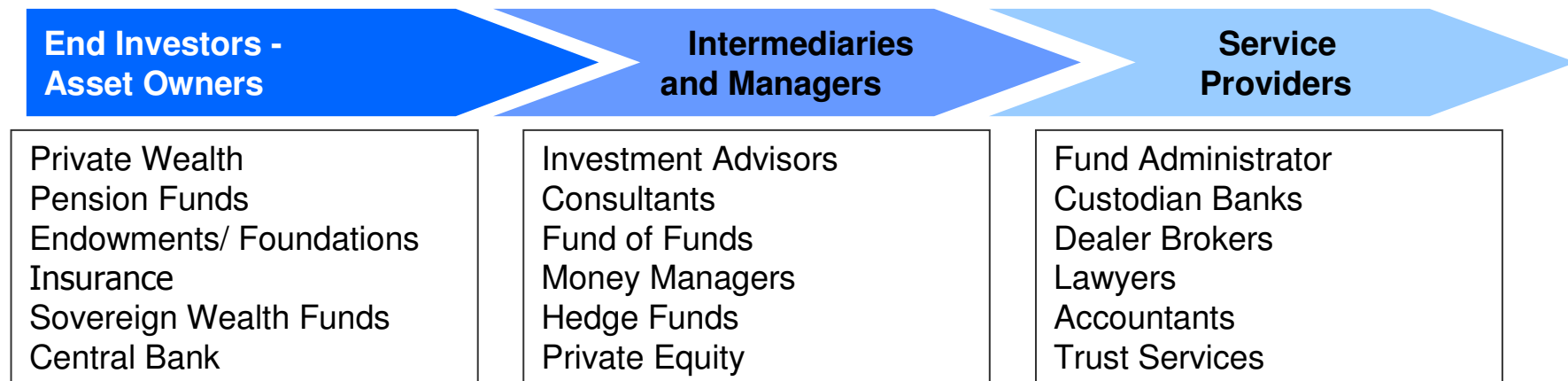
HKMA has been taking a proactive “two-pronged” strategy:

- **Outreach campaigns:** to promote Hong Kong's strengths as an international asset management centre
- **Platform building:** to address issues impeding Hong Kong's development



# Framework of marketing strategy

- We are constantly refining our outreach strategies, taking into account the latest market trends and the feedback from our discussions with the industry
- In particular, we have categorized our marketing targets into three broad groups:



- Asset allocation process:
  - End Investors-asset owners dictate business flows for asset managers
  - Service providers follow the capital flows of the other players



## Ongoing enhancement of our platform

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- Tax
  - Hong Kong has a simple, reliable and low tax system
  - Only three direct taxes on profits, salaries and property
  - No sales / withholding / capital gain / dividend / estate taxes
  - Rapidly expanding Double Tax Treaties network
- Modernization of trust law
  - FSTB just launched a 2-month consultation on the detailed legislative proposals on Trust Law reform in March 2012
- Review of private banking regulations
  - HKMA/SFC are reviewing the regulations with a view to adopting requirements that are more compatible with the conduct of private wealth management business

# Ongoing enhancement of soft infrastructure



- Increase in supply of international schools
  - With recent allocation of greenfield sites to four international schools, additional 3,500 school spaces expected from school year 2012-2013 onwards\*
- Pipeline of new office spaces gradually coming through
  - Kowloon East under development into another central business district
- Air quality

\*Legislative Council Panel on Education: Provision of international school places [LC Paper No. CB(2)968/11-12(03)]



# Promoting and Enhancing HK's competitive edge as Asia's Premier Asset Management Centre



- Role of the private sector:
  - Contribute to the policy discussion by providing feedback
  - Diversify product innovation while maintaining high investor protection standards
  - Train talents to ensure strong pipeline of financial professionals to meet growing demand
- TMA can play a key role in enhancing Hong Kong's competitiveness as an international financial centre
  - e.g. launched spot USD/CNY(HK) fixing in 2011, standardization of documentation for RMB trade-related activities etc
  - Working groups: RMB market development, ETF etc.
  - New working group on corporate treasury industry developments
  - Continuous teaching programs to train local talents



Thank you